

COLUSA COUNTY ASSESSMENT PRACTICES SURVEY

OCTOBER 2010

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No. 2010/054

October 29, 2010

TO COUNTY ASSESSORS:

COLUSA COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Colusa County Assessment Practices Survey Report is enclosed for your information. The State Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Wayne Zoller, Colusa County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, the State Legislature, and the Colusa County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division in March 2009. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Zoller and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum amount of funding, the State must make up the difference from the general fund.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Colusa County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board, the Senate and Assembly, and the Colusa County Board of Supervisors and Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Wayne Zoller, Colusa County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Colusa County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Colusa County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined in Rule 371.²

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

² All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

The assessor is doing a satisfactory job in handling administrative policies and procedures. In the area of disaster relief, we noted several positive aspects: the assessor has revised the application form for disaster relief and has requested that the board of supervisors amend the county's disaster relief ordinance pursuant to section 170. Additionally, the assessor has been submitting final drafts of BOE-prescribed forms for BOE approval pursuant to Rule 171.

In the area of real property assessment, we discovered areas of certain real property programs where improvement is needed. The most significant include the following: penalties for failure to file change in ownership statements are not being applied and decline-in-value assessments need improved documentation.

The assessor has effective programs for the audit of personal property, business equipment valuation, and the discovery and valuation of vessels. Areas that need improvement include periodically reviewing manufactured homes for declines in value and obtaining from aircraft owners the essential information needed for a current market appraisal.

Despite the recommendations noted below, we found most properties and property types are assessed correctly.

We found no significant assessment problems as defined in Rule 371. Since Colusa County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Colusa County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Following is a list of the formal recommendations contained in this report, arrayed in the order they appear in the text.

- RECOMMENDATION 1:** Apply appropriate penalties: (1) if a change of ownership statement is not returned and (2) if a statement of change in control and ownership of legal entities was not filed timely with the BOE.14
- RECOMMENDATION 2:** Develop written procedures to improve compliance with section 63.1 and section 69.5 claims.....16

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RECOMMENDATION 9:	Obtain the essential information needed for current market appraisals from aircraft owners.	30

OVERVIEW OF COLUSA COUNTY

Colusa County lies in the heart of California's Central Valley, about 70 miles north of Sacramento, the capital of California. The county encompasses about 1,156 square miles. Colusa County is bordered by the counties of Glenn to the north, Lake and Mendocino to the west, Yolo to the south, and Sutter to the east. This agricultural county, chartered in 1850, was one of the original California counties. It was named after two Mexican land grants: Coluses (1844) and Colus (1845). As of July 2008, the U.S. Census Bureau Population Division reported that Colusa County had a population of 21,204.

The following table illustrates the growth in assessed values over recent years:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2008-09	\$2,498,107,000	3.6%	4.7%
2007-08	\$2,411,740,000	7.4%	9.6%
2006-07	\$2,244,954,000	13.4%	12.3%
2005-06	\$1,979,840,000	9.7%	11.1%
2004-05	\$1,804,349,000	---	---

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, appraiser certification, staff property procedures, assessment appeals, exemptions, and assessment forms.

Budget and Staffing

Over the last few years, the assessor's workload has increased due to declining market conditions and the need to process decline-in-value assessments. Staffing has also increased, but only slightly. As shown in the following table, the assessor's budget has increased about 10 percent over recent years:

BUDGET YEAR	GROSS BUDGET	INCREASE	PERMANENT STAFF
2008-09	\$898,058	3.4%	13
2007-08	\$868,659	-0.4%	13
2006-07	\$872,183	-1.4%	13
2005-06	\$884,662	8.6%	12
2004-05	\$814,562	N/A	11

Presently, the assessor's permanent staff totals 11. The staff includes 4 real property appraisers (including the assessor), 1 office manager, 1 auditor-appraiser, 1 mapping staff, and 4 support staff. Of the 13 budgeted permanent positions, 2 are currently vacant.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid appraiser's certificate issued by the BOE. There are a total of seven certified appraisers on staff, including the assessor; three hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In Colusa County, the office manager and the chief appraiser coordinate the training and certification program for the appraisers. They use their own data, as well as data from the BOE's training unit, to catalog courses completed by the appraisal staff. Advanced certification is required for promotion to senior appraiser, and appraisers are encouraged to take the necessary courses to obtain their advanced certifications as soon as possible. Appraisers are also required to take advanced courses in their areas of expertise.

Over all, Colusa County's training and certification program is efficient. However, one staff member is deficient 53 training hours; that person should become current in the required training hours.

Staff Property Procedures

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of properties in which they have ownership interests.

The assessor discovers staff-owned properties through name recognition when a recorded deed is received in the office, through self-declaration by the staff member acquiring the property, and from the certified staff's annual filing of the California Fair Political Practices Commission Form 700, *Statement of Economic Interests*.

Form 700 requests information regarding employee ownership in any real property, other than a primary residence, as well as any ownership interest in any business entity. This information is used to identify potential conflicts of interest that staff members may have regarding their interests in businesses and property investments.

When a change in ownership or completed new construction on a staff-owned property or business requires an appraisal, the assignment is given to an appraiser or auditor-appraiser other than the owner of the property or business. The completed appraisal is then forwarded to the chief appraiser for review and approval. In the case where the property is owned by the chief appraiser, the appraisal is forwarded to the assessor for review and approval. This process ensures that staff-owned properties are properly assessed.

We reviewed a number of staff-owned properties and found no problems with their valuations due to changes in ownership or completed new construction.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted Rules 301 through 326 to regulate the assessment appeals process.

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an application

within two years of the timely filed application unless the taxpayer and appeals board mutually agree to an extension of time for the hearing or the application is consolidated for hearing with another application by the same taxpayer.

The Colusa County Board of Supervisors serves as the county board of equalization and hears all assessment appeals; there are no hearing officers. The five-member appeals board hears cases for changes in value affecting properties on the local secured and unsecured roll. The regular filing period for assessment appeal applications in Colusa County is between July 2 and November 30 of the assessment year in question.

The clerk receives applications for changed assessments and reviews and validates them. If an application is complete, the clerk enters the pertinent data into the tracking system and forwards a copy to the assessor. The assessor, with assistance from the chief appraiser, monitors the appeals.

After reviewing an application, the assessor contacts the taxpayer to discuss the claim. Should the taxpayer decide to withdraw an appeal or stipulate to an agreed value, the assessor sends a letter with the appropriate attachments to the taxpayer for review. Upon receipt of a signed letter to the clerk, the appeal is officially withdrawn or, in the case of a stipulation, is sent to the appeals board for approval. If no agreement can be reached, the appeal process continues and a hearing is scheduled. The assessor is present at all appeals board hearings.

The following table illustrates the appeal workload from recent years:

ASSESSMENT ROLL	2008-09	2007-08	2006-07	2005-06	2004-05
Appeals Filed	38	20	9	16	4
Appeals Carried Over From Prior Year	9	0	0	0	0
Total Appeals Workload	47	20	9	16	4
Resolution:					
Withdrawn	2	10	9	8	3
Stipulation	0	0	0	8	1
Appeals Reduced	1	0	0	0	0
Appeals Upheld	0	0	0	0	0
Appeals Increased	0	0	0	0	0
Other Determination*	2	1	0	0	0
Total Resolved	5	11	9	16	4
To Be Carried Over**	42	9	0	0	0

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

The assessor monitors the progress of each appeal, ensuring each appeal is resolved within two years of the filing of the application in accordance with section 1604. No appeal in the last five years has gone unresolved for more than two years unless the taxpayer has agreed to a waiver of the statutory time limit.

Over all, the assessor's portion of the assessment appeal program is well administered. The staff handling appeals is experienced, well prepared, and works well with the appeals board. In addition, a majority of the appeals are withdrawn after the informal exchange of information, indicating the assessor's communication with assesseees is productive.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207,

which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The assessor processed 3 church exemption claims and 46 religious exemption claims for the 2008-09 assessment roll. The following table illustrates church and religious exemption data for recent years:

ROLL YEAR	CHURCH		RELIGIOUS	
	NUMBER	EXEMPTED VALUE	NUMBER	EXEMPTED VALUE
2008-09	3	\$379,779	46	\$6,560,383
2007-08	3	\$372,336	47	\$6,350,746
2006-07	4	\$485,037	47	\$6,234,960
2005-06	4	\$436,479	47	\$6,130,075
2004-05	4	\$394,438	45	\$5,554,319

Our review indicates the assessor properly processes church and religious exemption claim filings. We found no problems with the assessor's church and religious exemptions programs.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships that own and operate low-income housing and have a qualified organization (OCC holder) as the managing general partner. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE if the property is a low-income housing property owned and operated by a limited partnership which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The assessor processed 29 welfare exemption claims for the 2008-09 assessment roll. The following table illustrates welfare exemption data for recent years:

ROLL YEAR	WELFARE CLAIMS	EXEMPTED VALUE
2008-09	29	\$23,686,863
2007-08	27	\$21,808,315
2006-07	24	\$18,530,172
2005-06	27	\$17,222,824
2004-05	19	\$11,232,824

We reviewed a variety of welfare exemption claims, including initial and annual filings. We also inspected claims for hospitals and low-income housing properties, including properties owned by limited partnerships. Our review indicates the assessor is properly administering the welfare exemption. Accordingly, we have no recommendations in this area.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally-developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for BOE-prescribed forms, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

To enforce the use of prescribed forms, the BOE annually requires assessors to specify in writing the forms they will use in the succeeding assessment year. Assessors are also required to submit to the BOE copies of the final prints of all prescribed forms they intend to use.

All forms to be used by the assessor for the 2009-10 assessment year conform to BOE requirements.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Document Processing

The assessor's primary source of discovering properties which have changed ownership is through deeds and other documents recorded at the county recorder's office. The recorder's office initially screens all recorded documents and follows suggested guidelines provided by the assessor for the filing of BOE-502-A, *Preliminary Change of Ownership Report* (PCOR). The county recorder requires a PCOR to accompany documents submitted for recordation for the transfer of ownership of real property. If the recorder receives a transfer document without a PCOR, a \$20 charge may be applied to the recording fee. PCORs are available at both the assessor's and recorder's offices as well as from the recorder's website. The recorder also ensures that each deed contains the assessor's parcel number, as required by local ordinance.

All recorded documents are sent electronically to the assessor's office. Within two days of recording, the draftsman downloads the recorded documents, confirms the property description, applies any missing parcel numbers, and makes any necessary splits or lot line adjustments. Once complete, the draftsman places the documents in a binder for processing by the transfer analyst (TA).

The TA is responsible for making all change in ownership determinations with the exception of base year value transfers. The TA retrieves PCORs and transfer tax sheets from the recorder's office and matches them against the documents placed in the binder by the draftsman. The TA then codes the recorded documents to indicate what type of transfer has occurred. Details of certain transfers, such as full or partial transfers, splits, consolidations, and lot line adjustments,

are documented on the building record and in the assessor's computer system; other transfers, such as trusts, interspousal transfers, deaths, and parent/child transfers, are documented only in the assessor's computer system.

If additional information is required to process a change in ownership, the TA sends a letter to the property owner requesting the information. If an exclusion applies, the TA sends the appropriate claim forms to the property owner. The TA catalogs each letter or claim form requesting additional information in a binder. The county has a 98 percent rate of return of letters and claim forms.

At the end of a roll period, the TA checks the binder for non-responses and notifies the appraisers of reappraisable events. Once an event is determined to be reappraisable, the applicable paperwork is provided to the assigned appraiser.

We examined several recorded documents and found the assessor conducts a proper and thorough review of reappraisable events.

Transfer Lists

Section 408.1(a) requires the assessor to maintain a list of property transfers that have occurred within the preceding two years for public inspection. Section 408.1(e) states the provisions of this section shall not apply to any county with a population of under 50,000 people, as determined by the 1970 federal decennial census. Based on the population of Colusa County in 1970, the assessor is not required to maintain a transfer list. Although it is not required, the assessor maintains a two-year transfer list available for review by the public at no charge. The information on the transfer list is updated biweekly, and no confidential information is inappropriately disclosed.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and hence either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of changes in control of legal entities, and thus, no corresponding recorded notice of any real property transfers.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide information sufficient to identify the real property involved. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

The assessor discovers potential changes in control or ownership of legal entities from newspaper listings, appraiser observations during field inspections, word of mouth, and BOE reports. The TA processes all legal entity transfers. The assessor notifies the BOE of any potential changes in control or ownership of legal entities that are discovered by utilizing the *Legal Entity Corporate Transfer Referral* form.

When the county receives the monthly BOE LEOP reports, the TA reviews the reports to determine if any changes in control or ownership of legal entities have affected properties within Colusa County. The reported parcel numbers on the BOE reports are reviewed and an examination performed of the assessor's records to identify all properties owned by the entity to ensure all of the entity's real property is reassessed. If an appraiser discovers additional parcels related to the entity, the information is given to the TA.

If the transfer results in a reappraisable event, the TA updates the transfer information on the building record and provides the building record and LEOP information to the appraiser for valuation. Colusa County does not experience many transfers of ownership interests in legal entities.

Penalties

When a transfer document is received by the recorder without a PCOR, the TA will attempt to contact local property owners by phone to obtain additional information to minimize expenses. If the TA is unable to reach the property owner, BOE-502-AH, *Change of Ownership Statement* (COS), is mailed. The TA maintains a log book to record the mailings of the COS and to monitor the 45-day deadline for returning the form. However, our review indicates that penalties are not applied when the property owner does not complete and return the COS within 45 days.

RECOMMENDATION 1: Apply appropriate penalties: (1) if a change of ownership statement is not returned and (2) if a statement of change in control and ownership of legal entities was not filed timely with the BOE.

Apply appropriate penalties if the change of ownership statement is not returned.

The assessor does not assess the penalty required under section 482(a) when a change of ownership statement is mailed to a taxpayer and the taxpayer does not respond.

Section 480(a) states that whenever there is a change in ownership of locally taxed real property, the transferee shall file a signed change in ownership statement. Section 482(a) emphasizes the importance of this requirement:

"If a person or legal entity required to file a statement described in Section 480 fails to do so within 45 days from the date of a written request by the assessor, a penalty of either: (1) one hundred dollars (\$100), or (2) 10 percent of the taxes applicable to the new base year value...shall...be added to the assessment made on the roll."

The information contained in a properly completed COS is important because it assists the assessor in making an accurate assessment of a property. If the COS is not returned or not returned timely, the penalty must be applied in accordance with section 482(a).

Apply appropriate penalties if a statement of change in control and ownership of legal entities was not filed timely with the BOE.

When the county receives the monthly BOE LEOP report, appraisers are responsible for identifying if BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, was filed timely. The BOE reviewed a sample of records and discovered penalties required by section 482(b) were not applied when statements were filed late.

Sections 480.1(a) and 480.2(a) state that whenever there is a change in ownership or a change in control of any corporation, partnership, limited liability company, or other legal entity, a signed statement shall be filed with the BOE at its office in Sacramento. Section 482(b) states in part, "If a person or legal entity required to file a statement described in section 480.1 or 480.2 fails to do so within 45 days from the date of a written request by the BOE, a penalty...shall be added to the assessment made on the roll."

The BOE provides the assessor reports that identify the due dates and filing dates of the changes in control and ownership filings of legal entities. Additionally, a copy of the envelope bearing the postmark accompanies BOE-100-B as evidence of the filing date.

By failing to apply the penalty for late filing, the assessor is not in compliance with section 482(b).

Change in Ownership Exclusions – Section 63.1

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of the principal residence and the first one million dollars of other real property between parents and children when a claim form is timely filed. Certain transfers between grandparents and grandchildren are also eligible for this exclusion.

The assessor provides the public with information as well as claim forms for the exclusions. If a PCOR or COS indicates a transfer may be between a parent(s) and child(ren), or from grandparent(s) to grandchild(ren), the assessor is proactive in notifying interested parties of a possible exclusion. The assessor sends interested parties a claim form along with a letter explaining the exclusion. If no claim form is received within 30 days, the property is reappraised. The TA typically reviews all section 63.1 claim forms and determines if exclusions will be granted or denied. If a claim is denied, a letter is mailed to the property owner.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving properties other than transferors' principal residences. When the county receives the quarterly *Report of Transfers Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if property exceeding the limit is in Colusa County or another county. If the property exceeding the limit is in Colusa County, the TA will pull the building record for the appraiser to revalue.

Change in Ownership Exclusions – Section 69.5

Section 69.5 allows qualified homeowners who are 55 years of age or older, or who are severely and permanently disabled, to transfer the base year values of their principal residences to replacement dwellings purchased or newly constructed within the same county provided a claim is timely filed. Claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Section 69.5 allows counties to adopt ordinances to expand benefits to include intercounty transfers.

Over the past five years, the assessor has received only five claims for section 69.5 exclusions. Colusa County does not accept base year value transfers from other counties. If a PCOR or COS indicates a transfer may involve a change in ownership exclusion, the assessor sends the parties a claim form. All section 69.5 claims are reviewed by the office manager to determine if the exclusion will be granted or denied. Appraisers determine the fair market value of both the replacement and original properties and apply the appropriate percentage based on the date the replacement property was purchased or new construction was completed.

Over the past five years, the assessor has only submitted one required quarterly report to the BOE listing approved section 69.5 exclusions. Due to the small number of section 69.5 claims received, the assessor is able to track duplicate filings within the county without difficulty. All section 69.5 claims are noted on a report with claimants' social security numbers.

Our review of Colusa County's procedures for processing section 63.1 and section 69.5 claims revealed several deficiencies that need to be addressed.

RECOMMENDATION 2: Develop written procedures to improve compliance with section 63.1 and section 69.5 claims.

The assessor does not have written procedures to assist staff with processing section 63.1 and section 69.5 claims. We noted areas in the processing of section 63.1 and section 69.5 claims which need improvement:

- The assessor incorrectly reports restricted California Land Conservation Act (CLCA) values to the BOE rather than adjusted base year values for properties exceeding the \$1,000,000 limit of real property other than the principal residence.

Section 63.1 states, in part: "(a) ...a change in ownership shall not include the following purchases or transfers for which a claim is filed pursuant to this section: ... (2) the purchase or transfer of the first one million dollars...of full cash value of all other real property...." Full cash value is defined by section 110.1 as the fair market value as of the 1975 lien date, the date of change in ownership, or completion of new construction, whichever occurs last, plus inflationary factoring.

For purposes of section 63.1 quarterly reporting to the BOE, where the transferred property is restricted by a CLCA contract, the excluded value is the adjusted base year value, not the restricted value. The county's practice of reporting restricted values rather

than adjusted base year values on properties restricted by CLCA undervalues the properties for the \$1,000,000 limit on the transfer of real property other than the principal residence.

- The assessor incorrectly granted a section 63.1 exclusion.

The TA determines the eligibility of a section 63.1 claim and places a note on the form indicating whether or not the exclusion applies. The form is then sent to the appraiser, who processes the exclusion. We discovered a file in which the note indicated the exclusion "does not apply," but the appraiser granted the exclusion.

- The assessor does not submit quarterly reports to the BOE pursuant to section 69.5.

Section 69.5(b)(7) states, in part: "In order to prevent duplication of claims under this section within this state, county assessors shall report quarterly to the State Board of Equalization...all claimants who have thereby received relief."

The county often does not have any section 69.5 exclusions to report, so it does not submit quarterly reports to the BOE. However, to comply with the intent of this statute and to provide full information, the assessor should file quarterly reports with the BOE even if the reports indicate that the county has no exclusions.

- The assessor inaccurately granted a section 69.5 exclusion.

Section 69.5(g)(5) provides: "...the full cash value of a replacement dwelling does not exceed...(A) One hundred percent of the amount of the full cash value of the original property if the replacement dwelling is purchased or newly constructed prior to the date of the sale of the original property."

We discovered a claim where the replacement property was purchased prior to the date of sale of the original property, but the value of the replacement property exceeded the value of the original property. In this case, the exclusion was improperly granted.

- The assessor does not adequately protect the confidentiality of information provided on section 63.1 and section 69.5 claim forms.

Section 63.1(i) and section 69.5(n) provide that claims filed under these sections are not public documents and are not subject to public inspection. In Colusa County, section 63.1 and section 69.5 claim forms are generally not attached to building records but are kept in a locked cabinet inaccessible to the public. However, we discovered several claim forms attached to building records, and we discovered the cabinet containing the claim forms was not secured from the public during non-business hours. Keeping claim forms in an unsecured area allows the possibility of a breach of confidential information.

In conclusion, written procedures and better communication with staff regarding section 63.1 and section 69.5 exclusions will avoid processing errors, will ensure more complete compliance with applicable laws, and will result in more equal treatment of taxpayers.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and the Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 70(c), (d), and (e), and sections 73 through 74.7 address these exclusions.

Discovery

The assessor discovers most new construction activity from building permits. Colusa County has four permit issuing agencies: the Colusa County Planning and Building Department, the City of Colusa Planning Department, the City of Williams Planning Department, and the Colusa County Health and Human Services Department. The Colusa County Planning and Building Department, without any pre-screening, sends copies of all permits to the assessor's office and allows assessor's personnel access to all plans and specifications for new construction. The City of Colusa Planning Department and the City of Williams Planning Department both allow assessor's personnel access to all permits, building plans, and specifications. Discovery methods used for non-permitted new construction include field inspections and reviewing aerial photographs, newspaper articles, and business property statements.

Permit Processing

The appraiser assigned a particular geographical area obtains all permits, plans, completion dates, and certificates of occupancy from the appropriate permitting agency. Although there is no ordinance in Colusa County requiring the assessor's parcel number be on every permit, the assessor reports the overwhelming majority of permits contain the subject property's parcel number. Permit information is entered into the assessor's computer and on the individual property records. Even minor permits for electrical, plumbing, or mechanical work, which the assessor determines add no value to the subject property, are entered in the assessor's system. The assessor saves all hard copies of the permits received, storing them in binders for future reference.

Owner's Self-Reporting Program

If the appraiser needs additional information not obtained in a field visit or provided by the permit, plans, or specifications, the appraiser will send the owner a *New Structure Questionnaire*,

asking the owner to provide information on such things as the cost of the new construction, the contractor's name and contact information, and the completion status of the new construction as of a specific date. The assessor estimates that 95 percent of the questionnaires sent out are returned completed by the owner.

New Construction Valuation

The assessor actively seeks and compiles builders' contract costs for all property types. This data becomes valuable when appraisers are making value estimates. In valuing new residential construction, the assessor uses the market approach and Assessors' Handbook Section 531, *Residential Building Costs*, and compares these two analyses to the property owner's reported historical cost when available. The value of new construction for commercial, industrial, or special use properties is estimated using the market, income, and cost approaches, including historical cost and data from *Marshall Valuation Service*.

If the replacement cost is considered when valuing additions to existing improvements, the assessor depreciates the project's estimated replacement cost using a percent good which corresponds to the effective age of the subject following completion of the work. Other new construction is valued based on full Replacement Cost New (RCN). All completed new construction and construction-in-progress appraisals are forwarded to the chief appraiser for review prior to enrollment.

We reviewed several completed new construction activities of residential and commercial properties, and while the assessor generally values and enrolls new completed construction and partial construction in progress correctly, we did note two areas of the new construction program which need improvement.

RECOMMENDATION 3: Improve the new construction program by: (1) obtaining copies of permits from the Colusa County Health and Human Services Department and (2) substantiating new construction discounts on residential swimming pools.

Obtain copies of permits from the Colusa County Health and Human Services Department.

The assessor does not solicit or receive permits from the Colusa County Health and Human Services Department, which issues permits for underground storage tanks, water wells, and septic systems. These permits may represent assessable new construction or indicate that other related construction activity is occurring or may begin soon. Not obtaining these permits may result in escape assessments for new construction. To ensure discovery of all qualifying new construction, the assessor must receive a copy of every approved building permit.

Substantiate new construction discounts on residential swimming pools.

It is the assessor's policy to assess newly constructed residential swimming pools at a discounted percentage of historical cost. However, the assessor has no current documented study to support

this adjustment. Adjustments to reported actual costs should be supported by documented market evidence or a cost study.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its FBYV on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the factored base year value adjusted for inflation up to 2 percent.

The following table shows the number of decline-in-value assessments in Colusa County for recent years:

ROLL YEAR	DECLINE-IN-VALUE ASSESSMENTS
2008-09	866
2007-08	103
2006-07	96
2005-06	93
2004-05	94

The assessor's primary methods of discovering declines in value are from property owner requests for value reviews and appraiser familiarity with their assigned geographic areas. In addition, the assessor reexamined all reappraisable changes in ownership and new construction events occurring since 2005 in a proactive effort to discover properties experiencing declines in value.

There are a few single-family residential subdivisions in Colusa County. Sales in these subdivisions are tracked on a spreadsheet. If the sales data indicates the market value is declining in a particular neighborhood, the appraiser will reduce the assessed values for all properties in the neighborhood that warrant a decline in value.

Single-family residences not located within these homogeneous subdivisions, multi-residential properties, and commercial and industrial properties are reviewed on an individual basis when requested by the property owner. When a property owner requests a decline-in-value review, the assessor or the chief appraiser and the appraiser responsible for the geographical area review the claim. When the appraiser completes the review and determines a reduction in the assessed value is warranted, a notice of assessed value change is generated and mailed to the property owner. Properties in decline-in-value status are coded in the computer system to prevent the application of the annual inflation factor and to alert the assessor to annually review these properties.

We found one facet of this program that warrants improvement.

RECOMMENDATION 4: Document decline-in-value assessments on appraisal records.

We found the assessor does not adequately document decline-in-value assessments on the appraisal records. We encountered several appraisal records containing no information as to how the taxable values were determined. Although the assessor maintains a main file containing comparable sales, no data was attached to many of the appraisal records reviewed. It is standard appraisal practice to list or reference on the appraisal record the comparables used, along with any appropriate adjustments made to justify an appraiser's opinion of value. Doing so is proper appraisal practice, facilitates appraisal review, and prevents unnecessary delays in answering any questions which may arise regarding the enrolled value.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based on agricultural income-producing ability (including income derived from compatible uses, such as hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides guidance for the appraisal of these properties.

Most of the rural property in Colusa County consists of rice, irrigated crops, orchards, and grazing lands. The bulk of the agricultural revenue generated in Colusa County is derived from rice and almonds.

For the 2008-09 assessment roll, Colusa County had 319,708 acres encumbered by CLCA contracts. The total land and improvement value of CLCA properties for 2008-09 was \$190,488,201.

Valuation of CLCA Property

The valuation of CLCA properties in Colusa County, including changes in ownership and new construction, is the responsibility of the assessor.

The assessor uses a computerized assessment system to assist in the calculations of restricted values. The assessor inputs capitalization rates and updates income and expenses based on analysis of rental and expense information submitted with agricultural questionnaires and information from the county's annual crop report. The assessor recognizes appropriate expenses, including improvement charges, crop production expenses, and a charge for management. The

assessor uses cash rent paid for income. These rents vary based on the quality and production capability of each type of crop or quality of grazing land.

The Colusa County Board of Supervisors adopted section 423.3, which limits the assessment of restricted land to a value no higher than a given percentage of the property's factored base year value. The assessor compares and enrolls the lesser of the total restricted value of the appraisal unit, the factored base year value of the same unit modified by the section 423.3 percentage, and the current market value of the unit as if unrestricted.

Capitalization Rates

Section 423(b) prescribes the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization rate shall be the sum of the following components:

- An interest component annually determined and announced by the BOE;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon, and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and
- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

The assessor utilizes appropriate capitalization rates, including a component for risk, when determining the restricted values of CLCA properties. The AH 521 recommends a basic risk component of 1 percent as a standard guideline for the purposes of developing the capitalization rate. The AH 521 also notes the risk component will vary according to what risks have already been considered in the development of the income to be capitalized. The assessor uses a basic risk rate of 1.5 percent for grazing lands with additional risk being added for row crop, rice, and orchard properties.

By annually revaluing CLCA lands using the current yield rate and current economic income and expenses, the assessor has performed his due diligence in those areas. Over all, we found the assessor has complied with most applicable statutes when valuing CLCA properties. However, we found improvements are needed where the assessments involve homesites and compatible uses.

RECOMMENDATION 5: Determine base year values for homesites upon changes in ownership of CLCA properties.

The assessor treats homesites and homesite improvements as separate appraisal units when reviewing for declines in value and enrolls the lower of the factored base year value or the current market value. However, our review indicates when a change in ownership of CLCA property occurs, the assessor does not update the homesite value; instead, he carries forward the existing homesite value.

Section 428 provides that the restricted valuation for standard CLCA land does not apply to residences or the site of a residence. As explained in the AH 521, since the residence and its site are not restricted, they must be valued as a separate appraisal unit. Even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner. In estimating site value by the comparative sales method, the assessor should consider all the attributes of the subject site just as in the appraisal of a separate parcel.

The assessor's practice has most likely resulted in the underassessment of homesites.

RECOMMENDATION 6: Include compatible use income in the income to be capitalized when valuing CLCA land.

The assessor fails to include income from compatible uses of restricted land when determining the income to be capitalized.

Section 423(a)(3) provides: "Revenue shall be...from any use of the land permitted under the terms by which the land is enforceably restricted." When income generated by a compatible use is attributable to the land, it must be capitalized in the manner specified for restricted properties.

The assessor's practice results in the underassessment of restricted lands with compatible uses.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly-owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly-owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

For the 2008-09 assessment roll, the assessor enrolled 69 taxable possessory interests with a total assessed value of \$1,200,704. The assessor is responsible for the assessment of all taxable possessory interests. The assessor has an effective program for discovering and valuing taxable possessory interests; however, we did find two areas in need of revision to ensure compliance with applicable statutes.

RECOMMENDATION 7: Revise the taxable possessory interest assessment procedures by: (1) obtaining a list of all transient usage at the county fairgrounds and (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

Obtain a list of all transient usage at the county fairgrounds.

The assessor does not obtain a complete list of transient usage at the fairgrounds. The fairground personnel give the assessor a list of users they believe have a taxable possessory interest, but they omit the users they believe do not have a taxable possessory interest. This decision should be made by the assessor, not by fairground personnel. The assessor must assess all qualifying interests in public property. By not obtaining a complete list of usage at the fairgrounds, the assessor may not be discovering all taxable possessory interests at the fairgrounds.

Periodically review all taxable possessory interests with stated terms of possession for declines in value.

The assessor does not periodically review taxable possessory interests with stated terms of possession for declines in value.

Section 51 requires the assessor to assess a taxable possessory interest at the lesser of its base year value (adjusted annually for inflation by no more than 2 percent) or its current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a taxable possessory interest with a stated term of possession, Rule 21(d)(1) provides that the stated term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have mutually agreed to a different term of possession. Rule 21(a)(6) defines "stated term of possession" for a taxable possessory interest property as the remaining period of possession. The term of possession may have a material effect on the current fair market value of the interest.

The assessor should estimate the market values of taxable possessory interests with stated terms of possession as of the lien date, based on the remaining terms of possession, compare those values with the factored base year values, and in each case enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, he should develop a program to periodically review the assessments of taxable possessory interests with stated terms of possession to ensure that declines in value of taxable possessory interests are consistently recognized. Failing to consider the remaining term of possession of a taxable possessory interest may overstate its taxable value.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.

Colusa County produces natural gas (petroleum) as well as sand and gravel. To reduce costs, the assessor no longer uses a mineral appraisal consultant to value these properties, which have been assigned to the assessor and the chief appraiser. As part of this transition, the assessor requested the BOE's assistance in establishing procedures and training staff in the valuation of mineral properties. The county was in the midst of the training during this survey; therefore, no formal review of mineral property assessment practices was conducted.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

As of March 2009, one auditor-appraiser manages the business property program. The assessor and chief appraiser work with the auditor-appraiser to ensure the correct classification and allocation of real and personal property items assessed to businesses; the assessor or chief appraiser also reviews all audits. This staffing mix maximizes the coordination of real property and business property assessments.

In this section of the survey report, we review the assessor's audit program, business equipment valuation, and the assessment of manufactured homes, aircraft, and vessels.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Prior to January 1, 2009, section 469 required county assessors to audit, at least once every four years, the books and records of any taxpayer engaged in a professional, trade, or business, if the taxpayer has assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as *mandatory audits*. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of section 470. These audits are referred to as *nonmandatory audits*. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixtures and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a *significant number of audits* as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while

section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

An auditor-appraiser is responsible for the audit workload. The chief appraiser and the assessor oversee the personal property functions of the office. They also review all audits.

We reviewed the assessor's audit workload, as well as the 2008-09 audit production and found the assessor will meet his newly established production obligation under section 469, as amended. At the time of this survey, the assessor has completed 19 mandatory audits. The amended statute requires the assessor to complete 13 total audits per year hereafter. Therefore, the assessor will complete the newly defined number of audits required.

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We sampled several recently completed audits and found in all cases mandatory audits are accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. We also found the assessor adequately reviews change in control and ownership issues, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment. We have no recommendations regarding the assessor's audit program.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors with percent good factors. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581).

The assessor uses the valuation factor tables published by the California Assessors' Association (CAA) to value business equipment. These factors follow the AH 581 factors closely except for older equipment, in which case the percent good of the equipment is held at a certain minimum level. The index and percent good factors are programmed into the assessor's assessment system. The factors are updated each year prior to the lien date.

Minimum Percent Good Factors

Section 401.16(b) prohibits the assessor from using minimum percent good factors that are determined in an unsupported manner. The CAA recommends the use of minimum percent good factors to recognize properties that have a minimum fair market value. The minimum factors recommended for most commercial and industrial equipment are based on the study by Marshall Valuation Services. The study indicated an average 9 percent minimum percent good factor for all industrial properties and an average 10 percent minimum percent good factor for all commercial properties.

The assessor has adopted the CAA-recommended minimum percent good components in the generation of his valuation tables. The CAA percent good factors are founded on cost studies based on market evidence; therefore, they comply with section 401.16.

Application of BOE-Recommended Index Factors

The assessor has adopted the price indices recommended by the CAA. The price indices parallel the indices published in AH 581 with the exception of specific types of equipment, such as pagers, facsimile equipment, high tech medical equipment, and photocopiers, which the CAA recommends should not be trended. We found the assessor's application of BOE-recommended valuation tables is both consistently and accurately applied. We have no recommendations in this area.

Mobile Construction and Agricultural Equipment Valuation Factors

The assessor currently utilizes separate and appropriate factor tables for new and used mobile construction and agricultural equipment pursuant to the instructions for Table 5 and Table 6 in AH 581. Section 401.16(a)(2) allows the assessor to average the new and used percent good factors for both mobile construction and agricultural equipment when the taxpayer does not indicate on the property statement whether the equipment was first acquired new or used. Where the condition is known, the assessor should use the "new" or "used" table as appropriate. We reviewed the assessor's factor tables related to this valuation process and found the assessor correctly applies BOE-recommended cost index and depreciation tables.

Computer Valuation

Pursuant to section 401.5, the BOE also issues valuation factors for computer equipment (see AH 581, "Table 7: Non-Production Computer Valuation Factors"). We found the assessor has adopted the CAA factors for computer equipment. The factors agree with those found in AH 581.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property

taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

The assessor has 53 manufactured homes on the 2008-09 assessment roll with a total value of \$943,240. In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration cost data or sales prices listed in recognized value guides for manufactured homes. Recognized value guides include the BOE's AH 531 cost data for manufactured homes and the *National Automobile Dealers Association's Manufactured Housing Appraisal Guide* (NADA).

In general, the assessor has a well-administered manufactured homes assessment program. However, our review found one area needing improvement.

RECOMMENDATION 8: Periodically review assessments of manufactured homes located in rental parks for declines in value.

The assessor annually indexes manufactured home values by the article XIII A inflation factor, without any consideration of current market values indicated by manufactured home valuation guides as required by section 5803. Section 5813 requires manufactured homes be assessed at the lesser of the factored base year value or current market value. Although the assessor is not required to reappraise all properties each year, he should develop a program to periodically review the assessments of manufactured homes to ensure declines in value of manufactured homes are recognized accurately and consistently.

The assessor's practice may lead to the overassessment of manufactured homes.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest* (*Bluebook*) as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference* (*Vref*) as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2008-09 assessment roll, the Colusa County Assessor enrolled 129 general aircraft with a total assessed value of \$7,426,375. There are no historical or certificated aircraft in Colusa County. One drafting technician, assisted by one assessment technician, administers the assessor's aircraft program. The assessor discovers aircraft through airport operators' reports, field canvassing, taxpayers' tips, and other counties' referrals.

In Colusa County, only certificated staff assume valuation-oriented duties regarding aircraft. An aircraft property statement is mailed each year to the known owner of each aircraft. The statement requests the owner to report the year, make, model, and tail number of the aircraft, as

well as installed avionics, engine air hours since last major overhaul, date of last overhaul, overall condition, airworthiness status, and cost information. If the aircraft has been sold since the last lien date, information about the transfer is also requested.

Our review of the aircraft assessment program found one area needing improvement.

RECOMMENDATION 9: Obtain the essential information needed for current market appraisals from aircraft owners.

Although the assessor sends out property statements to aircraft owners on an annual basis, no further effort is made to contact the owners in instances in which the statement is not returned or is returned incomplete. As a result, we found instances where, lacking data, no adjustment was made for engine hours or for additional equipment, and we found very few aircraft values had been adjusted for the condition of the aircraft. The value for any given aircraft is likely to be substantially different from the value suggested by the value guide, depending on the overall condition, the equipment installed, the number of hours since a major overhaul, and the total engine hours. Adjustments for overall condition, additional or special equipment, engine hours since the last major overhaul, and airframe hours must be made to these book values to determine the correct market value. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are affected more by the condition of the aircraft.

The assessor should be sure to obtain from aircraft owners the essential information needed for current market appraisals.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.

For the 2008-09 assessment roll, the Colusa County Assessor enrolled more than 500 vessels with a total assessed value of approximately \$3,600,000. Recreational boats, such as runabouts, inboard/outboards, and jet skis, are valued by use of a valuation guide, *New Boat and Motor Price Guide Blue Book* (ABOS). Only certificated staff assume valuation-oriented duties regarding vessels. The assessor uses the BOE-developed vessel depreciation factors when determining value for property taxation purposes.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Colusa County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Sally Boeck

Supervising Property Appraiser

Survey Team Leader:

Andy Austin

Associate Property Appraiser

Survey Team:

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Tammy Aguiar

Associate Property Appraiser

Angie Berry

Associate Property Appraiser

Glenn Danley

Senior Specialist Property Appraiser

Chuck Matura

Associate Property Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

John Frank

Senior Specialist Property Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located, of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report.

The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement or the reasons for not implementing, the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems,

only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Colusa County Assessor's response begins on the next page. The BOE has no comments on the response.



Wayne Zoller
ASSESSOR
COUNTY OF COLUSA
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Colusa, CA 95932
Phone (530) 458-0450
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September 8, 2010

Mr. Dean Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, Ca. 94279-0062

RECEIVED

SEP 10 2010

County-Assessed Properties Division
State Board of Equalization

Re: Assessor's Response – Colusa County Assessment Practices Survey August 2010

Dear Mr. Kinnee:

Pursuant to Section 15645 of the California Government Code, I am hereby submitting the attached response of the Colusa County Survey. Please incorporate my response into your final Assessment Practice Survey Report.

I want to acknowledge the BOE survey team members for the professional and courteous manner in which they performed the survey. I welcome and appreciate their suggestions for improvement and constructive comments regarding our processes and practices.

I also want to acknowledge my staff for their dedication, work ethics and professionalism in providing excellent service to the citizens of Colusa County.

Sincerely


Wayne Zoller
Assessor Colusa County

Attachment: Response to the 2010 Assessment Practices Survey.

Colusa County Assessor Department
Response to 2010 Assessment Practice Survey
September 8, 2010

RECOMMENDATION 1: Apply appropriate penalties: (1) if a change of ownership statement is not returned and (2) if a statement of change in control and ownership of legal entities was not filed timely with the BOE.

Response: We have established a process with the Auditors Office so these direct assessments can be placed on the tax roll.

RECOMMENDATION 2: Develop written procedure to improve compliance with section 63.1 and section 69.5 claims.

Response: We will improve our written procedures to insure that the appraisers have the information to correctly process these claims.

RECOMMENDATION 3: Improve the new construction program by: (1) obtaining copies of permits from the Colusa County Health and Human Services Department and (2) substantiating new construction discounts on residential swimming pools.

Response: (1) We have reconnected with Colusa County Health and Human Services Department for the permits that they issue. They had a change in directors and the new one did not know that we wanted this information. Just as important as the permits for underground storage tanks, water wells and septic tanks, we also want to know if property is contaminated or has become unfit for habitat.

Response: (2) We will continue to value swimming pools at market value.

RECOMMENDATION 4: Document decline-in-value assessments on appraisal records.

Response: We concur that more information on the appraisal records would be desirable, but because current staff level and time constraints this can not be achieved. We have been very proactive as stated in this survey and the taxpayers have not suffered because of this recommendation.

Colusa County Assessor Department
Response to 2010 Assessment Practice Survey
September 8, 2010

RECOMMENDATION 5: Determine base year values for homesites upon changes in ownership of CLCA properties.

Response: We concur and will pursue implementation of this recommendation.

RECOMMENDATION 6: Include compatible use income in the income to be capitalized when valuing CLCA land.

Response: We concur and will make the changes in our computer coding system to indicate what income is being used. Our method is based more on income than coding, so is hard to see what income is included in this value.

RECOMMENDATION 7: Revise the taxable possessory interest assessment procedures by: (1) obtaining a list of all transient usage at the county fairgrounds and (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

Response: (1) We concur and have contacted the fairgrounds about sending us a list of usage.

Response: (2) We concur and will periodically review all taxable possessory interest for decline in value.

RECOMMENDATION 8: Periodically review assessments of manufactured homes located in rental parks for declines in value.

Response: We concur and will periodically review manufactured home located in parks.

RECOMMENDATION 9: Obtain the essential information needed for current market appraisals from aircraft owners.

Response: We concur and will request more information for this process.